

Traverse Bay Area Intermediate School District

**FINANCIAL STATEMENTS
AND REPORT OF INDEPENDENT
CERTIFIED PUBLIC ACCOUNTANTS**

June 30, 2006

CONTENTS

	<u>Page</u>
MANAGEMENT'S DISCUSSION AND ANALYSIS	i - xii
BOARD OF EDUCATION AND STAFF.....	3
REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS	4
FINANCIAL STATEMENTS	
STATEMENT OF NET ASSETS	6
STATEMENT OF ACTIVITIES.....	7
BALANCE SHEET - GOVERNMENTAL FUNDS.....	8
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS	9
RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES WITH THE DISTRICT-WIDE STATEMENT OF ACTIVITIES.....	10
STATEMENT OF FIDUCIARY NET ASSETS	11
STATEMENT OF NET ASSETS - INTERNAL SERVICE FUND	12
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES - INTERNAL SERVICE FUND	13
STATEMENT OF CASH FLOWS - INTERNAL SERVICE FUND	14
NOTES TO FINANCIAL STATEMENTS	15
REQUIRED SUPPLEMENTARY FINANCIAL INFORMATION	
BUDGETARY COMPARISON SCHEDULE FOR THE GENERAL EDUCATION FUND	30
BUDGETARY COMPARISON SCHEDULE FOR THE MICHIGAN WORKS FUND	31
BUDGETARY COMPARISON SCHEDULE FOR THE SPECIAL EDUCATION FUND	32
BUDGETARY COMPARISON SCHEDULE FOR THE VOCATIONAL EDUCATION FUND	33

CONTENTS

Page

COMBINING FINANCIAL STATEMENTS OF NON-MAJOR GOVERNMENTAL FUNDS

COMBINING BALANCE SHEET - OTHER GOVERNMENTAL FUNDS 35

COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCES - OTHER GOVERNMENTAL FUNDS..... 36

FEDERAL PROGRAMS

REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO
EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER
COMPLIANCE IN ACCORDANCE WITH *OMB CIRCULAR A-133* 38

REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER
FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL
STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT*
AUDITING STANDARDS 40

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS..... 42

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS PROVIDED
TO SUBRECIPIENTS 45

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS 47

SCHEDULE OF FINDINGS AND QUESTIONED COSTS..... 48



Michael E. Kenney, Superintendent
Marie Connors-Gilmore, Assistant Superintendent for Special Education
Michael J. Hill, Assistant Superintendent for General & Vocational Education

Traverse Bay Area Intermediate School District
1101 Red Drive, P.O. Box 6020, Traverse City, MI 49696-6020
231/922-6200 FAX: 231/922-6270

Management's Discussion and Analysis For the Year Ended June 30, 2006

Our discussion and analysis of Traverse Bay Area Intermediate School District's (the "District") financial performance provides an overview of the District's financial activities for the fiscal year ended June 30, 2006. Please read this analysis in conjunction with the District's financial statements, which immediately follow this section.

DESCRIPTION OF REPORTING ENTITY AND SERVICES PROVIDED

The Traverse Bay Area Intermediate School District (TBAISD), one of Michigan's 57 ISDs, encompasses sixteen public school districts, three public school academies and fourteen private and parochial schools within Antrim, Benzie, Grand Traverse, Kalkaska and Leelanau counties. The District serves over 27,000 students and more than 2,200 educators. When ISDs were established in 1962, the name "Intermediate" School District was chosen to reflect their role as a link between local school districts and the Michigan Department of Education. As the scope and responsibility of schools grew, however, so did the role of the ISD, providing its local districts with those programs and services which are either too expensive or too extensive to be offered individually. TBAISD's motto, "Leading Lifetime Learning," reflects its commitment to providing continually expanding educational opportunities for all learners.

The largest and most well-known TBAISD services are those in Special Education and Career and Technical Education. However, Traverse Bay Area Intermediate School District also provides a wide range of specialized services through its General Education area. The Instructional Services team offers a variety of programs and services designed to support student achievement, meet state and federal legislative mandates, and enrich school programs throughout the five-county service area. The team provides leadership and expertise to teachers and administrators, connecting regional and site-based objectives to research-based programs, appropriate resources, and the highest standards of professional development.

Collaboration between local districts, citizens, human service agencies, area commerce, Northwestern Michigan College, in fact, all aspects of the community, is becoming more important in the search for educational quality and cost effectiveness. TBAISD programs and services include: Special Education, Vocational/Technical Education, Professional Development, School Improvement, Data Management & Analysis, Instructional Services, Technology/Media, Business/Finance, Early Childhood, Grand Traverse Regional Math, Science and Technology Center, Online Learning, Career Preparation, Road Test Service, Human Resources & Administrative Services, Program Research and Development, Adult and Alternative Education and Collaborative Initiatives.

The District services a large population of special education students. At the basis of all education is the expectation that all students can and will achieve to the limits of their abilities. TBAISD is a State leader in developing special education programs that are cost-effective and create opportunities in which students can realize their full potential. To do this, TBAISD employs certified and trained specialists to serve students in the following disability areas: Autism Spectrum Disorder (AI), Early Childhood Development Delay (ECDD), Emotionally Impairment (EI), Moderate Cognitive Impairment (MoCI), Severe Cognitive Impairment (SCI), Hearing Impairment (HI), Learning Disabilities (LD), Other Health Impairment (OHI), Physical Impairment (PI), Severe Multiple Impairment (SXI), Speech and Language Impairment (S/L), Visual Impairment (VI) and Deaf/Blind.

For students with greater special needs, TBA is not just a service, it is a school. Four center programs provide students with a more restrictive placement and the intensive help they need.

New Campus School is a day treatment program for Severely Emotionally Impaired students in kindergarten through twelfth grade. Academics combined with unique opportunities for personal and emotional growth contribute to the school's high rate of returning students to their regular schools.

The **Adult Work Center** is for students ages 16-26 who are Mild, Moderately, and Severely Cognitively Impaired, Severely Multiply Impaired, and with Autism. Students participate in community-based instruction, career exploration and job experiences to learn to live as independently as possible given their capabilities.

Cherry Knoll Children's Center offers programs for students ages 3 through 14 with various disabilities, the best possible start in Infant/Toddler and Preprimary programs.

Oak Park School houses seven self-contained classrooms for Autism Spectrum Disorder and Emotionally Impaired students, and a preschool for Visually Impaired students.

In addition, TBA provides diagnostic and consulting services to local districts to help determine a student's plan for assistance, transition planning and monitoring, agency coordination, Continuous Improvement Monitoring System (CIMS), along with curriculum services that focus on assessment, school improvement and teacher training. TBA also supplies a variety of consultants to offer additional help in the resource rooms of local schools providing services to children with special needs and sponsors the TBAISD Special Education Parents Advisory Council. SEPAC is made up of parents representing the 16 local school districts and our charter schools, who meet monthly to discuss special education issues and learn more about special education challenges.

Our **Career-Technical Center (CTC)** offers area 11th and 12th grade students 23 career-technical programs. Students may elect to attend the TBAISD Career-Tech Center for half of their school day. One of the few career centers in Michigan accredited by the North Central Association, the CTC is widely recognized for program excellence. As more and more students recognize the value of career-technical education, the CTC works to design programs that not only meet the needs of students in the classroom but will lead them to success in future careers. Benefits of CTC programs are as follows:

- CTC programs combine academics with technical learning.
- Programs teach to national certification standards.
- Many programs are merged with Northwestern Michigan College allowing students to earn college credit while still in high school.
- CTC programs have advisory boards consisting of area business people that assure programs are using the latest methods and technology.

- Job shadowing and work experience is a part of many programs.
- Specially designed “Less-than-Class-Size” programs make it possible to meet students’ specific career goals.
- More than one-third of the students join one of six skill and leadership clubs at CTC, which consistently earn high state-wide ratings in occupational club competitions. There is also a student council and National Vocational-Technical Honor Society chapter at CTC.

OVERVIEW OF THE FINANCIAL STATEMENTS

This annual report consists of three sections presented in the following order: Management’s discussion and analysis, the basic financial statements, and required supplementary information. The basic financial statements include two types of statements that present different views of the District:

- The first two statements are *district-wide financial statements* that provide comprehensive *short-term* and *long-term* financial information about the District as a whole.
- The remaining statements are *fund financial statements* that focus on *individual parts* of the District, reporting the District’s operations *in more detail* than the district-wide statements.
- The *governmental funds* statements tell how *basic* services like regular and special education were financed in the *short-term*, as well as what remains for future spending.
- *Fiduciary funds* statements provide information about assets held by the District in a *trustee* or *agent* capacity.
- *Proprietary funds* statements provide a record of activities that the District operated similar to a business, in that the District charges a fee to the user in order to recover costs associated with the program or activity.

The financial statements also include notes that explain some of the information in the statements and provide more detailed data and supporting documentation. The statements are followed by a section of required supplementary information that further explains and supports the financial statements with a comparison of the District’s budget for the year. Figure A-1 shows how the various parts of this annual report are arranged.

Figure A-1

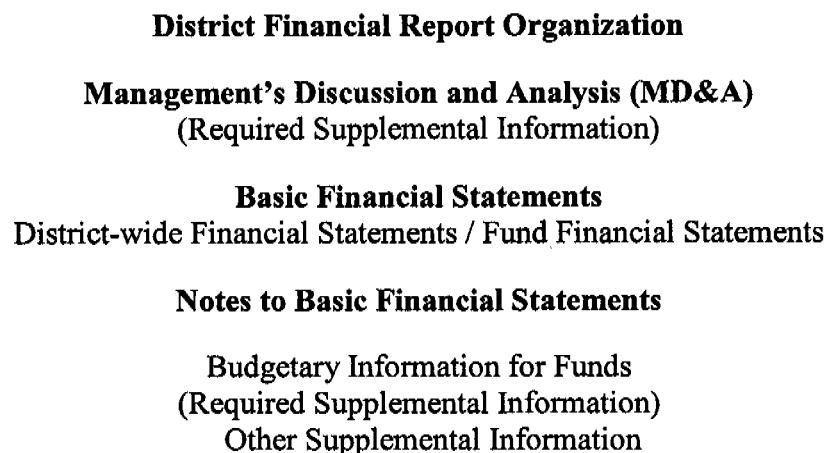


Figure A-2 summarizes the major features of the District's financial statements, including the portion of the District's activities they cover and the types of information they contain. The remainder of this overview section of management's discussion and analysis highlights the structure and contents of each of the statements.

Figure A-2
Major Features of District-Wide and Fund Financial Statements

	District-wide Statements	Fund Financial Statements		
		Governmental Funds	Enterprise Funds	Fiduciary Funds
Scope	Entire district (except fiduciary funds)	The activities of the district that are not proprietary or fiduciary, such as special education and building maintenance.	Activities the district operates similar to private businesses such as employee benefit fund	Instances in which the district administers resources on behalf of someone else, such as scholarship programs and student activities monies
Required financial statements	Statement of net assets Statement of activities	Balance sheet Statement of revenues, expenditures and changes in fund balances	Statement of net assets Statement of revenues, expenses, and changes in net assets Statement of Cash Flow	Statement of fiduciary net assets
Accounting basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus	Accrual accounting and economic resources focus	Accrual accounting and economic resources focus
Type of asset/liability information	All assets and liabilities, both financial and capital, short-term and long-term	Generally assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets or long-term liabilities included	All assets and liabilities, both financial and capital, and short-term and long-term	All assets and liabilities, both short-term and long-term, TBA's funds do not currently contain capital assets, although they can
Type of inflow/outflow information	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year, expenditures when goods or services have been received and the related liability is due and payable	All revenues and expenses during year, regardless of when cash is received or paid	All additions and deductions during the year, regardless of when cash is received or paid

DISTRICT-WIDE STATEMENTS

The district-wide statements provide comprehensive information about the entire District using the accrual basis of accounting which is similar to the method used by private-sector companies. The statement of net assets includes all of the District's assets and liabilities, excluding fiduciary funds, and the difference between the two, which is net assets. The statement of activities accounts for all of the current year's revenues and expenses regardless of when cash is received or paid.

The statement of net assets and statement of activities report the governmental activities for the School District, which encompass all of the School District's services, including instruction, support services, community services, food service, and childcare. Unrestricted State Aid, property taxes, and state and federal grants finance most of these activities.

The two district-wide statements report the District's *net assets* and how they have changed. Examining net assets is one way to measure the District's financial health or *position*. Over time, increases or decreases in the District's net assets are an indicator of whether its financial position is improving or declining. The relationship between revenues and expenses is the District's operating results, or in other terms, whether the District had a profit or a loss at year end. However, the District's mission is not simply to generate profits, as may be the case for a commercial entity. Our mission is to enhance educational effectiveness. The District accomplishes this mission by pursuing continuous improvement in teaching and learning by offering a wide range of services.

FUND FINANCIAL STATEMENTS

The fund financial statements provide more detailed information about the District's funds. Each major fund is presented in a separate column. Non-major funds are aggregated and displayed in a single column. Funds are accounting devices the District uses to keep track of specific sources of funding and spending on particular programs. Some funds are required by State law and by bond covenants. The District establishes other funds to help it control and manage money for particular purposes (e.g., Child Care Fund) or to show that it is properly using certain revenues (e.g., Food Services Fund).

The District has three types of funds:

Governmental Funds

All of the District's basic services are included in governmental funds. Governmental fund reporting generally focuses on how dollars flow in and out of the funds and the balances left at year-end. These balances are reported using the modified accrual basis of accounting. Revenues are recognized when they are measurable and available. Expenditures are recorded when the related fund liability is incurred. The governmental fund statements provide a detailed short-term view of the operations of the District and the services it provides. Governmental fund information helps the reader determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs. The relationship or differences between governmental activities (reported in the Statement of Net Assets and the Statement of Activities) and governmental funds are presented in a reconciliation displayed further in our documentation. The District's major governmental funds are the General Education Fund, Michigan Works Fund, Special Education Fund and Vocational Education Fund.

Fiduciary Funds

The District is the Trustee, or fiduciary, for assets that belong to others. The District is responsible for ensuring that the assets reported in these funds are used only for their intended purposes, and only by those to whom the assets belong. We exclude these activities from the district-wide financial statements because the District cannot use these assets to finance its operations. The Student Activities Accounts and Memorial Funds are accounted for as fiduciary funds.

Proprietary Funds

The District operates a proprietary fund that is composed of an internal service fund. This fund accounts for services provided to the District's other funds. The District's self-funded dental and vision plans as well as its long-term leave liability are accounted for in this fund.

The District as a Whole

Recall that the statement of net assets provides the perspective of the District as a whole. Table 1 provides a summary of the District's net assets as of June 30, 2006 and June 30, 2005:

Table 1

	Governmental Activities 2004-2005 (in millions)	Governmental Activities 2005-2006 (in millions)	% Change
Assets			
Current and other assets	\$ 29.7	\$ 32.2	8.4
Capital assets	8.7	8.3	(4.6)
	<hr/>	<hr/>	
Total assets	38.4	40.5	5.5
Liabilities			
Current liabilities	9.8	8.4	(14.3)
Long-term liabilities	2.6	3.9	50.0
	<hr/>	<hr/>	
Total liabilities	12.4	12.3	(0.8)
Net Assets			
Invested in property and equipment - Net of related debt	8.7	8.3	(4.6)
Restricted	0.3	0.5	66.7
Unrestricted	17.0	19.4	14.1
	<hr/>	<hr/>	
Total net assets	\$ 26.0	\$ 28.2	8.5

The above analysis focuses on the net assets (see Table 1). The District's net assets were \$28.2 million at June 30, 2006, as compared to \$26 million at June 30, 2005. The increase in net assets is the result of many factors, the primary items being growth in the District's tax base and an increase in operating grants and contributions. Capital assets, net of related debt, totaling \$8.3 million, compares the original cost, less depreciation of the District's capital assets to long-term debt used to finance the acquisition of those assets. The District has no debt related to the acquisition of capital assets. Restricted net assets are reported separately to show legal constraints from debt covenants and enabling legislation that limit the District's ability to use those net assets for day-to-day operations. The remaining amount of net assets (\$19.4 million) was unrestricted.

The \$19.4 million in unrestricted net assets of governmental activities represents the accumulated results of all past years' operations. It means that if we had to pay off all of our bills today, including all of our non-capital liabilities (compensated absences for example); we would have \$19.4 million remaining.

The results of this year's operations for the District as a whole are reported in the Statement of Activities (see Table 2), which shows the changes in net assets for fiscal year 2006.

Table 2

	Governmental Activities 2004-2005 (in millions)	Governmental Activities 2005-2006 (in millions)	% Change
Revenue			
Program Revenue			
Charges for services	\$ 1.1	\$ 1.8	63.6
Operating grants and contributions	19.1	20.7	8.4
General Revenue			
Property taxes	22.5	24.0	6.7
State School Aid-unrestricted	2.0	2.0	-
Other	2.8	4.9	75.0
Total revenues	47.5	53.4	12.4
Functions/Program Expenses			
Instruction	11.6	12.1	4.3
Support services	23.8	26.9	13.0
Community services	3.3	3.4	3.0
Other transactions	6.5	7.6	16.9
Capital outlay	0.3	0.6	100.0
Depreciation (unallocated)	0.6	0.6	-
Total expenses	46.1	51.2	11.1

As reported in the Statement of Activities, the cost of all of our governmental activities this year was \$51.2 million. Certain activities were partially funded from those who benefited from the programs (\$1.8 million) or by other grants and contributions (\$20.7 million). We paid for the remaining “public benefit” portion of our governmental activities with \$24 million in taxes, \$2.0 million in State Aid, and other revenues including interest and general entitlements.

The District experienced an increase in net assets of \$2.3 million for 2005-2006 as compared to 2004-2005 levels. Key reasons for the increase in net assets are the growth in the District’s tax base and an increase in Medicaid funding.

The District's Funds

As noted earlier, the District uses funds to help it control and manage money for particular purposes. Looking at funds assists the reader consider whether the District is being accountable for the resources taxpayers and others provide to it and may provide more insight into the District's overall financial health. The District's budgets are prepared according to Michigan law. The most significant budgeted funds are the General Education Fund, Michigan Works Education Fund, Special Education Fund and the Vocational Education Fund. The General Education Fund is the main operating fund of the District. All other funds are used to account for the proceeds from specific revenue sources that are legally restricted to certain types of expenditures.

As the District completed this year, the governmental funds reported a combined fund balance of \$22,419,276 which is an increase of \$3,031,764 from the prior year. The primary reasons for the increase are:

- An increase in revenues was experienced again this year in the Special Education Fund due to receipt of Medicaid dollars and additional State Categorical funding based on prior year costs. TBAISD has made a concerted effort to increase Medicaid funding by training District and local school staff in billing procedures as well as hiring additional staff to audit and process billings.
- Capital projects funds increased by \$1,642,707 because funds were set aside to pay for the continued clean-up of contamination at our Career-Tech Center site, as well as the on-going construction and renovation of Special Education classrooms.
- The District continues to make every effort to contain expenditures within all funds in order to allow for additional services to be provided, as well as, funds to be transferred to our local school districts.

The District does not have any debt obligations other than Durant debt obligations, which are funded by annual State appropriations; accordingly, no debt retirement fund balance exists at year end.

Fund Budgetary Highlights

Over the course of the year, the District revises its budget as it attempts to deal with numerous changes in expected revenues and expenditures. The Uniform Budget Act of the State of Michigan requires that the Board of Education adopt a budget for the upcoming school year prior to July 1, which is the start of the new fiscal year. Under normal circumstances, the District adjusts its budget to reflect a wide variety of federal and state programs, many of which are not finalized until well after the District's original budget is required to be adopted. Unfortunately, the State of Michigan continues to face severe economic hardship which has caused the finalization of the State budget to be delayed until well after school district budgets are formally adopted. State law requires that the budget be amended to ensure that expenditures do not exceed appropriations. Traverse Bay Area Intermediate School District revised its budget three times during the fiscal year.

A schedule showing the District's original and final budget amounts compared with amounts actually paid and received is provided in required supplemental information of these financial statements.

Changes to fund budgets were as follows:

The General Education Fund final budgeted revenues experienced a favorable variance of \$1,057,468 in revenues over the original estimated budget. Interest revenue increased by roughly \$180,000. Additional State and Federal grant funding from Great Parents, Learning without Limits, and an increase in the deferral of the Michigan School Readiness grant accounted for approximately \$758,000 of the increase. Expenditures were decreased mainly because the District did not purchase a pre-packaged performance management system as expected. Also, several positions that were vacated due to retirements were not filled.

Special Education final budgeted revenues increased by \$2,988,643 primarily due to an increase in interest income, State Aid Section 51, and Medicaid revenue received during the fiscal year. Final budgeted expenditures increased by approximately \$1,800,000. The major adjustments were an increase in transfers to local school districts of Medicaid dollars and ISD operating funds, as well as, a transfer to the Capital Projects Fund for classroom additions and renovations.

The major adjustment made in the Vocational Education Fund budgeted expenditures during the year was the transfer out of approximately \$700,000 to the Capital Project Fund to pay for continuing costs associated with the groundwater contamination. Budgeted revenues experienced a positive variance of approximately \$359,000, which was composed of an increase in interest income and Section 61a.1 Added Cost reimbursement.

Michigan Works Fund revenue reported a positive variance of \$540,547 which was mainly due to an increase in federal grant funding. Expenditures increased because the additional federal grants were budgeted and expensed during the year. We continue to make every effort to only expend funds that have been awarded in the current year and not reduce the fund balance.

Capital Asset and Debt Administration

Capital Assets

At June 30, 2006, the District had \$8.3 million invested in a broad range of capital assets including buildings, land, furniture, equipment and vehicles. This amount represents a decrease of \$374,292 from June 30, 2005. The net decrease consisted of depreciable assets additions totaling \$194,273 and depreciation of \$568,565.

	June 30, 2005	June 30, 2006	% Change
Building and Improvements	\$ 14,051,297	\$ 14,272,785	1.6
Furniture and equipment	1,114,802	1,155,823	3.7
Buscs and Vehicles	394,990	392,991	(0.5)
Land	134,558	108,543	(19.3)
Construction in Process	40,222		(100.0)
Total Capital Assets	\$ 15,735,869	\$ 15,930,142	1.2
Less: Accumulated			
Depreciation	(7,057,558)	(7,626,123)	8.1
Total Capital Assets, Net	\$ 8,678,311	\$ 8,304,019	(4.3)

Calculations using percent of change will vary due to rounding of the percentages.

The District's major capital additions this year included renovations to the Career-Tech Center flooring and sidewalks, Vocational Education equipment, and Arnell East entrance improvements. No debt was issued for these capital additions.

Debt

At June 30, 2006, the District had \$1,233,870 in School Improvement Bonds outstanding. This debt will be repaid using revenue provided by the State of Michigan specifically for this purpose. Should the State legislature fail to appropriate these funds, the School District is not liable for repayment of these bonds.

Other obligations include accumulated leave liability in the amount of \$765,772 owed to employees who have been employed by the District for specified periods of time and are qualified for retirement under the Michigan Public School Employees Retirement System.

Factors Bearing on the District's Future

At the time these financial statements were prepared and audited, the District was aware of a number of circumstances that could significantly affect the financial health of Traverse Bay Area Intermediate School District in the future.

- The new retirement rate will be increased to 17.74% as compared to the 2005-06 rate of 16.34%. The increase in the retirement rate continues to be an issue for all districts in Michigan. A recent Senate Fiscal Agency report indicated that in reviewing the last three years, MPSERS contributions have increased by \$178 per pupil while foundation allowances increased by \$175. Unfortunately, future increases in MPSERS contributions will continue to cause districts to reduce funding for instructional purposes.
- The District's health insurance premiums remain an issue. The non-professional group will experience approximately an 18% increase in premium cost. In an effort to deal with this issue, the District will be unveiling a new Health Savings Account plan in January, 2007.
- The total allocation for Section 81 ISD General Operations is estimated to be increased by approximately 3.1% for 2006-2007 fiscal year. This is the first increase in Section 81 that Intermediate School Districts have had in three years.
- Construction of new Special Education classrooms at Traverse Heights has begun. Occupancy is expected to take place in August of 2007. It was hoped that with this additional space, we could close Cherry Knoll Children's Center. Unfortunately, due to ever increasing Special Education student numbers and the lack of available classroom space within the Traverse City area, the District will need to continue to hold classes in the building until other arrangements are made.

- The District accepted bids for a performance management system (web-based systems that collect, analyze, and communicates out in a variety of graphs, tables, and charts, how students are learning) to be used by all districts in the region. The bids did not meet the desired needs of our constituents, so the option of building a system in-house through the hiring of local specialists and consultation with database management experts was undertaken. While there was an immediate savings to the District from not purchasing a pre-packaged system, eventually development costs will equal what would have been spent on a pre-packaged system.

A database specialist was hired in February, 2006, and in conjunction with an outside consultant, a system of collecting, analyzing, and reporting out student achievement progress was developed and introduced in one local school district. While this has been accomplished at minimal costs, ramping the system up to include more robust analysis and reporting, as well as making it available to all districts will necessitate growing access to considerable resources.

The immediate future will require continued development of the system to include greater capacity to “drill down” or “disaggregate” data more thoroughly, particularly at the individual student level. This will require additional hardware and consultation fees. Increased licensing fees will be incurred as we increase from 1,500 to 25,000 students in the system. Funding for training costs will be needed as the District trains regional staff members on the use of the system.

- The District continues to deal with the remediation efforts at the Career-Tech Center site. On-going challenges with trying to meet the ever changing demands of the Department of Environmental Quality have been frustrating at best. The Board of Education would like nothing more than to have the site deemed “remediated”. The District’s legal advisor has estimated that the District’s remaining liability could range from \$2 to \$3 million.
- The public schools in Michigan have been able to participate in the Medicaid School Based Services and the Medicaid Outreach program since the early 1990’s. This funding has allowed the District to provide a high level of service without creating a bill back situation to the local schools. Prior to the Medicaid program becoming available, the District would have to bill back to local school districts the cost of providing the necessary Special Education programs and services.

The revenue stream provided by Medicaid has many variables that affect the ability to precisely predict the amount of funding to be received. These variables are: students going into and out of Medicaid eligibility, the rate that is set by the Medicaid Services Administration for the school based services, the number of students that are Medicaid eligible that have one or more of the following services listed on their Individualized Education Plan: Physical Therapy, Occupational Therapy, Speech and Language Therapy, Psychological Services, Nursing Services, School Social Work Services, Orientation and Mobility Services, and Assistive Technology Services. The providers at the ISD and local school districts have an impact on the revenue stream. The accuracy and completeness of the documentation have a direct bearing on the amount of time it takes for the billing to go through to the payment process.

Currently in the U.S. Congress there is discussion for future budgets to wipe out the School Based Services portion of the Medicaid funding formula. If this were to take place, local school districts would eventually have to return to a bill back situation for services provided by the ISD.

Contacting the School District's Financial Management

This financial report is designed to provide the District's citizens, taxpayers, customers, and investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report or need additional financial information, please contact the Business Office, Traverse Bay Area Intermediate School District, 1101 Red Drive, P.O. Box 6020, Traverse City, MI 49696-6020, Fax (231) 922-6270, Telephone (231) 922-6200.

Traverse Bay Area Intermediate School District

June 30, 2006

BOARD OF EDUCATION

President	Joseph Fisher
Vice-President	Harry Voice
Secretary	Ranae McCauley
Treasurer	Marlene Bevan
Trustee	Jeanette Amidon
Trustee	Maureen Daniels
Trustee	Robert McCall

STAFF

Superintendent	Michael Kenney
Assistant Superintendent Vocational and General Education	Michael Hill
Assistant Superintendent Special Education	Marie Connors-Gilmore
Director of Human Resources, Finance and Administrative Services	Stephanie Murray



Business and Financial Advisors
Our clients' success – our business

Thomas E. Gartland, CPA
Brad P. Niergarth, CPA
James G. Shumate, CPA
Robert C. Thompson, CPA
Michael D. Shaw, CPA
Mary F. Krantz, CPA
Shelly K. Bedford, CPA
Heidi M. Wendel, CPA

REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

Board of Education
Traverse Bay Area Intermediate School District

We have audited the accompanying financial statements of the governmental activities, each major fund and the aggregate remaining fund information of the *Traverse Bay Area Intermediate School District* (the "School District"), as of and for the year ended June 30, 2006, which collectively comprise the School District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the School District's management. Our responsibility is to express an opinion on these financial statements based on our audit. The prior year comparative information has been derived from the School District's financial statements and, in our report dated August 8, 2005, we expressed unqualified opinions on the respective financial statements of the governmental activities, each major fund and the aggregate remaining fund information.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund and the aggregate remaining fund information of the Traverse Bay Area Intermediate School District, as of June 30, 2006, and the respective changes in financial position, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated August 7, 2006, on our consideration of the School District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in conjunction with this report in considering the results of our audit.



415 Munson Avenue, Post Office Box 947
Traverse City, Michigan 49685-0947
231.946.1722, FAX: 231.946.2762
www.dgncpa.com

The management's discussion and analysis on pages i through xii and the budgetary comparison information on pages 30 through 33 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the School District's basic financial statements. The combining financial statements of non-major governmental funds are presented for purposes of additional analysis and are not a required part of the basic financial statements. The accompanying schedule of expenditures of Federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the basic financial statements of the School District. The combining non-major fund financial statements and the schedule of expenditures of Federal awards have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Dennis, Gartland & Niergarth

August 7, 2006

Traverse Bay Area Intermediate School District

STATEMENT OF NET ASSETS

June 30, 2006

(With comparative totals for June 30, 2005)

	Governmental Activities	
	2006	2005
ASSETS		
Current assets		
Cash and cash equivalents	\$ 5,401,764	\$ 1,076,990
Investments	23,598,792	26,532,671
Due from other governments and other receivables	3,200,472	2,071,896
Prepays	5,294	19,366
Inventory	20,304	18,482
Total current assets	32,226,626	29,719,405
Non-current assets		
Capital assets, net of accumulated depreciation	8,304,019	8,678,311
Total assets	<u>\$ 40,530,645</u>	<u>\$ 38,397,716</u>
 LIABILITIES AND NET ASSETS		
LIABILITIES		
Current liabilities		
Accounts payable	\$ 1,366,400	\$ 1,269,013
Salaries payable and related expenses	4,206,402	5,027,792
Deferred revenue	1,302,036	1,956,184
Other current liabilities	1,419,663	1,508,710
Current portion of long-term debt	105,939	101,148
Total current liabilities	8,400,440	9,862,847
Non-current portion of long-term debt	1,893,703	2,260,097
Accrued environmental costs	2,000,000	300,000
Total liabilities	<u>12,294,143</u>	<u>12,422,944</u>
NET ASSETS		
Invested in capital assets, net of related debt	8,304,019	8,678,311
Restricted	487,496	248,346
Unrestricted	19,444,987	17,048,115
Total net assets	<u>28,236,502</u>	<u>25,974,772</u>
Total liabilities and net assets	<u>\$ 40,530,645</u>	<u>\$ 38,397,716</u>

The accompanying notes are an integral part of these financial statements.

Traverse Bay Area Intermediate School District

STATEMENT OF ACTIVITIES

Year Ended June 30, 2006

(With comparative totals for June 30, 2005)

Functions/Programs	Program Revenues		Net (Expense) Revenue and Changes in Net Assets	
	Expenses	Charges for Services	Operating Grants and Contributions	Governmental Activities
				2006
				2005
Governmental activities				
Instruction expense	\$ 12,138,869	\$ 571,190	\$ 7,136,889	\$ (4,430,790)
Support Services	26,914,337	832,265	4,342,645	(21,739,427)
Community Services	3,458,666	149,978	823,423	(2,485,265)
Child care	273,948	271,216	-	(2,732)
Food Service	15,643	15,861	-	218
Other transactions	7,277,214	-	8,390,712	1,113,498
Capital outlay	585,909	-	-	(585,909)
Depreciation-unallocated	568,565	-	-	(568,565)
Total governmental activities	\$ 51,233,151	\$ 1,840,510	\$ 20,693,669	(28,698,972)
General revenues				
Property taxes				
Levied for general purposes				1,651,354
Levied for Special Education				16,223,201
Levied for Vocational Education				6,128,062
State school aid - unrestricted				2,023,036
Grants and contributions not restricted to specific programs				32,565
Investment and other				4,902,484
Total general revenues				30,960,702
Change in net assets				2,261,730
Net assets, beginning of year				25,974,772
Net assets, end of year				\$ 28,236,502
				\$ 25,974,772

Traverse Bay Area Intermediate School District
BALANCE SHEET - GOVERNMENTAL FUNDS

June 30, 2006

(With comparative totals for June 30, 2005)

	General Education Fund	Michigan Works Fund	Special Education Fund	Vocational Education Fund	Capital Projects Fund - #2	Other Governmental Funds	Total Governmental Funds	
							2006	2005
ASSETS								
Cash and cash equivalents	\$ 953,575	\$ 369,885	\$ 150,301	\$ 458,392	\$ 1,157,196	\$ 1,042,982	\$ 4,132,331	\$ 944,554
Investments	3,525,123	545,242	11,832,044	2,972,552	2,778,226	1,658,076	23,311,263	26,048,550
Due from other governments and other receivables	575,207	134,891	2,200,234	204,927	-	85,213	3,200,472	2,071,896
Due from other funds	-	-	-	-	-	-	-	36,206
Prepaid expenses	1,750	-	3,044	500	-	-	5,294	19,366
Inventories - supplies and materials	15,659	-	-	4,645	-	-	20,304	18,482
Total assets	\$ 5,071,314	\$ 1,050,018	\$ 14,185,623	\$ 3,641,016	\$ 3,935,422	\$ 2,786,271	\$ 30,669,664	\$ 29,139,054
LIABILITIES AND FUND BALANCES								
LIABILITIES								
Accounts payable, accrued payroll and related liabilities	\$ 1,102,864	\$ 263,212	\$ 3,507,963	\$ 623,948	\$ -	\$ 30,702	\$ 5,528,689	\$ 6,250,442
Due to other funds	-	-	-	-	-	-	-	36,206
Other accrued expenses	-	93,500	1,321,969	4,194	-	-	1,419,663	1,508,710
Deferred revenue	1,003,925	69,701	99,248	129,162	-	-	1,302,036	1,956,184
Total liabilities	2,106,789	426,413	4,929,180	757,304	-	30,702	8,250,388	9,751,542
FUND BALANCES								
Unreserved, reported in								
General Education Fund	2,751,925	-	-	-	-	-	2,751,925	2,811,551
Michigan Works Fund	-	623,605	-	-	-	-	623,605	605,309
Special Education Fund	-	-	8,981,547	-	-	-	8,981,547	8,300,349
Vocational Education Fund	-	-	-	2,883,712	-	-	2,883,712	2,371,310
Capital Projects Funds	-	-	-	-	3,935,422	2,754,374	6,689,796	5,047,089
School Food Service Fund	-	-	-	-	-	1,146	1,146	777
Child Care Fund	-	-	-	-	-	49	49	2,781
Employee Health Benefits Fund	-	-	-	-	-	-	-	-
Reserved, reported in								
General Education Fund	212,600	-	-	-	-	-	212,600	-
Special Education Fund	-	-	274,896	-	-	-	274,896	-
Vocational Education Fund	-	-	-	-	-	-	-	248,346
Total fund balances	2,964,525	623,605	9,256,443	2,883,712	3,935,422	2,755,569	22,419,276	19,387,512
Total liabilities and fund balances	\$ 5,071,314	\$ 1,050,018	\$ 14,185,623	\$ 3,641,016	\$ 3,935,422	\$ 2,786,271		

Reconciliation of Governmental Fund Balances to District-Wide Governmental Activities Net Assets

Amounts reported for governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in governmental funds. The cost of the assets for 2006 and 2005 is \$15,930,142 and \$15,735,869, respectively. The accumulated depreciation on the assets for 2006 and 2005 is \$7,626,123 and \$7,057,558, respectively.

8,304,019 8,678,311

Internal Service Fund net assets used in governmental activities are not financial resources of the Governmental Funds and, therefore, are not reported as assets in governmental funds.

825,731 570,194

Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported as liabilities in the funds. Long-term liabilities at year-end consist of:

Accrued environmental costs	(2,000,000)	(300,000)
Bonds payable	(1,233,870)	(1,335,018)
Accumulated leave liability	(78,654)	(1,026,227)

Total net assets - governmental activities	<u>\$ 28,236,502</u>	<u>\$ 25,974,772</u>
--------------------------------------------	----------------------	----------------------

The accompanying notes are an integral part of these financial statements.

Traverse Bay Area Intermediate School District **STATEMENT OF REVENUES, EXPENDITURES AND CHANGES** **IN FUND BALANCES - GOVERNMENTAL FUNDS**

Year Ended June 30, 2006

(With comparative totals for June 30, 2005)

	General Education Fund	Michigan Works Fund	Special Education Fund	Vocational Education Fund	Capital Projects Fund #2	Other Governmental Funds	Total Governmental Funds	
							2006	2005
Revenues								
Property taxes	\$ 1,651,354	\$ -	\$ 16,223,201	\$ 6,128,062	\$ -	\$ -	\$ 24,002,617	\$ 22,441,085
Interest	213,430	46,967	669,441	204,253	124,180	76,803	1,335,074	638,641
Intermediate sources	247	-	-	-	-	-	247	-
State program revenues	2,216,116	526,157	7,129,047	820,580	-	146,743	10,838,643	9,802,112
Federal program revenues	486,274	5,348,319	5,606,938	469,096	-	-	11,910,627	11,404,355
Other	872,318	315,643	2,450,873	256,280	-	287,077	4,182,191	2,700,502
Total revenues	5,439,739	6,237,086	32,079,500	7,878,271	124,180	510,623	52,269,399	\$ 46,986,695
Expenditures								
Instruction expense	249,610	1,519,589	7,212,342	3,151,094	-	-	12,132,635	11,294,768
Support Services	4,043,352	1,033,204	18,192,578	2,766,852	523,648	262,759	26,822,393	23,733,055
Community Services	90,851	3,415,564	5,440	22,617	-	-	3,534,472	3,304,816
Child care	-	-	-	-	-	273,948	273,948	224,734
Food Service	-	-	-	-	-	15,643	15,643	11,926
Other transactions	1,673,131	-	3,649,636	208,852	-	-	5,531,619	5,938,746
Debt Service	-	-	-	-	-	-	-	-
Principal	-	-	-	-	-	101,148	101,148	-
Interest	-	-	-	-	-	45,595	45,595	-
Capital outlay	205,194	26,976	114,770	420,779	12,463	-	780,182	814,085
Total expenditures	6,262,138	5,995,333	29,174,766	6,570,194	536,111	699,093	49,237,635	45,322,130
REVENUES OVER (UNDER)	(822,399)	241,753	2,904,734	1,308,077	(411,931)	(188,470)	3,031,764	1,664,565
EXPENDITURES								
Other financing sources (uses)								
Operating transfers in	1,521,151	26,051	208,967	-	1,229,985	1,092,244	4,078,398	6,742,777
Operating transfers out	(545,778)	(249,508)	(2,157,607)	(1,044,021)	-	(81,484)	(4,078,398)	(6,742,777)
Total other financing sources (uses)	975,373	(223,457)	(1,948,640)	(1,044,021)	1,229,985	1,010,760	-	-
REVENUES OVER EXPENDITURES AND								
OTHER FINANCING SOURCES (USES)								
Fund balance, beginning of year	152,974	18,296	956,094	264,056	818,054	822,290	3,031,764	1,664,565
Fund balance, end of year	2,811,551	605,309	8,300,349	2,619,656	3,117,368	1,933,279	19,387,512	17,722,947
Total	\$ 2,964,525	\$ 623,605	\$ 9,256,443	\$ 2,883,712	\$ 3,935,422	\$ 2,755,569	\$ 22,419,276	\$ 19,387,512

The accompanying notes are an integral part of these financial statements.

Traverse Bay Area Intermediate School District
RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT
OF REVENUES, EXPENDITURES AND CHANGES IN FUND
BALANCES WITH THE DISTRICT-WIDE STATEMENT OF ACTIVITIES

For the Year Ended June 30, 2006

(With comparative totals for June 30, 2005)

	<u>2006</u>	<u>2005</u>
Total net change in fund balances - governmental funds	\$ 3,031,764	\$ 1,664,565
<p>Amounts reported for governmental activities in the statement of activities are different because capital outlays to purchase or build capital assets that meet the capitalized threshold are reported in the governmental funds as expenditures. However, for governmental activities, those costs are shown in the statement and allocated over their estimated useful lives as annual depreciation expenses in the statement of activities. This is an amount of capital outlay and depreciation expense in the periods.</p>		
Capital outlays	194,273	494,471
Depreciation expense	(568,565)	(573,791)
<p>In the statement of activities, certain operating expenses-compensated absences - are measured by the amounts earned during the year. In the governmental funds, however, expenditures for these items are measured by the amount of financial resources used (essentially, the amounts actually paid). In 2006, amounts used were more than the amounts earned by \$260,455. Additionally, during 2006, \$687,118 of long-term leave liability for leave was transferred to an Internal Service Fund. In 2005, amounts used were less than the amounts earned by \$85,594.</p>		
	947,573	(85,594)
<p>Repayment of principal on long-term debt is an expenditure in the governmental funds, but not in the statement of activities (where it is a reduction of liabilities).</p>		
	101,148	-
<p>Change in net assets in the Internal Service Fund, not reported in governmental fund statements.</p>		
	255,537	225,375
<p>Future estimated environmental expenditures are recognized currently in the statement of activities. In the governmental funds, however, expenditures for these items are measured by the amount of financial resources used (essentially, the amounts actually paid). \$1,700,000 and \$300,000 of future estimated environmental expenditures were recognized in 2006 and 2005, respectively.</p>		
	<u>(1,700,000)</u>	<u>(300,000)</u>
Change in net assets of governmental activities	<u>\$ 2,261,730</u>	<u>\$ 1,425,026</u>

Traverse Bay Area Intermediate School District

STATEMENT OF FIDUCIARY NET ASSETS

June 30, 2006

(With comparative totals for June 30, 2005)

	<u>Agency Funds</u>	
	<u>2006</u>	<u>2005</u>
ASSETS		
Cash	\$ 143,649	\$ 58,493
Investments	<u>153,839</u>	<u>249,443</u>
Total assets	<u>\$ 297,488</u>	<u>\$ 307,936</u>
LIABILITIES		
Due to pupil activities	<u>\$ 297,488</u>	<u>\$ 307,936</u>

Traverse Bay Area Intermediate School District

STATEMENT OF NET ASSETS - INTERNAL SERVICE FUND

June 30, 2006

(With comparative totals for June 30, 2005)

	2006	2005
ASSETS		
Cash and cash equivalents	\$ 1,269,433	\$ 132,436
Investments	287,529	484,121
Total assets	<u>\$ 1,556,962</u>	<u>\$ 616,557</u>
LIABILITIES AND NET ASSETS		
LIABILITIES		
Accounts payable	\$ 44,113	\$ 46,363
Long-term liabilities	687,118	-
Total liabilities	<u>731,231</u>	<u>46,363</u>
NET ASSETS		
Unreserved, undesignated	<u>825,731</u>	<u>570,194</u>
Total liabilities and net assets	<u>\$ 1,556,962</u>	<u>\$ 616,557</u>

Traverse Bay Area Intermediate School District

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS INTERNAL SERVICE FUND

June 30, 2006

(With comparative totals for June 30, 2005)

	2006	2005
OPERATING REVENUES		
Charges to other funds	\$ 1,165,551	\$ 482,419
Employee contributions	24,116	24,472
Total operating revenues	1,189,667	506,891
OPERATING EXPENSES		
Instruction	290,506	92,032
Support Services	677,848	200,133
Total operating expenses	968,354	292,165
Operating income	221,313	214,726
NONOPERATING REVENUES (EXPENSES)		
Interest	35,815	10,649
Bank charges	(1,591)	-
Nonoperating revenues - net	34,224	10,649
CHANGES IN NET ASSETS	255,537	225,375
Net assets, beginning of year	570,194	344,819
Net assets, end of year	\$ 825,731	\$ 570,194

Traverse Bay Area Intermediate School District

STATEMENT OF CASH FLOWS - INTERNAL SERVICE FUND

Year Ended June 30, 2006

(With comparative totals for June 30, 2005)

	2006	2005
CASH FLOWS FROM OPERATING ACTIVITIES		
Charges to other funds - compensated absences	\$ 687,118	\$ -
Charges to other funds - insurance	478,433	482,420
Employee contributions	24,116	24,502
Cash paid to service provider	(14,010)	(16,368)
Cash paid to employees for insurance claims	(269,476)	(281,208)
Cash flows provided by operating activities	906,181	209,346
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest earnings	35,815	10,648
Bank charges	(1,591)	-
Cash flows provided by investing activities	34,224	10,648
Net increase in cash and cash equivalents	940,405	219,994
CASH AND CASH EQUIVALENTS, beginning of year	616,557	396,563
CASH AND CASH EQUIVALENTS, end of year	<u>\$ 1,556,962</u>	<u>\$ 616,557</u>
Reconciliation of operating income to net cash from operative activities		
Operating income	\$ 221,313	\$ 214,726
Adjustments		
Decrease in accounts receivable	-	29
Decrease in accounts payable	(2,250)	(5,409)
Increase in long term liabilities	687,118	-
Net cash provided by operating activities	<u>\$ 906,181</u>	<u>\$ 209,346</u>

The accompanying notes are an integral part of these financial statements.

Traverse Bay Area Intermediate School District

NOTES TO FINANCIAL STATEMENTS

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Introduction

The accounting and reporting framework and the more significant accounting principles and practices of Traverse Bay Area Intermediate School District are discussed in subsequent sections of this Note. The remainder of the notes are organized to provide explanations, including required disclosures, of the School District's financial activities for the fiscal year ended June 30, 2006.

The Financial Reporting Entity

Traverse Bay Area Intermediate School District's Board of Education (the "Board") is the basic level of government which has oversight responsibility and control over all activities related to the public school education. The Board receives funding from local, State and Federal governmental sources and must comply with the concomitant requirements of these funding source entities. However, the Board is not included in any other governmental "reporting entity" as defined in GASB pronouncements, since Board members are elected by the public and have decision-making authority to levy taxes, the power to designate management, the ability to significantly influence operations and primary accountability for fiscal matters. In addition, under the criteria of the GASB pronouncements, student, parent and teacher organizations are not included, except to the extent that the schools hold assets in the capacity of an agent.

Government-Wide and Fund Financial Statements

Government-Wide Financial Statements

The statement of net assets and statement of activities display information about the School District as a whole, except for its fiduciary activities. Individual funds are not displayed, but the statements distinguish governmental activities, generally supported by taxes and School District general revenues, from business-type activities, generally financed in whole or in part with fees charged to external customers.

The statement of activities reports the expenses of a given function offset by program revenues directly connected with the functional program. A function is an assembly of similar activities and may include portions of a fund or summarize more than one fund to capture the expenses and program revenues associated with a distinct functional activity. Program revenues include: (1) charges for services which report fees, fines and forfeitures, and other charges to users of the School District's services; (2) operating grants and contributions which finance annual operating activities including restricted investment income; and (3) capital grants and contributions which fund the acquisition, construction, or rehabilitation of capital assets. These revenues are subject to externally imposed restrictions to these program uses. Taxes and other revenue sources not properly included with program revenues are reported as general revenues.

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Fund Financial Statements

The balance sheet and statement of revenues, expenditures and changes in fund balances (i.e., fund financial statements) for the School District's governmental funds are presented after the government-wide statements. These statements display information about major funds individually and non-major funds in the aggregate for governmental funds. Major funds are generally those that represent 10% or more of governmental fund assets, liabilities, revenues or expenditures. Internal Service Funds are combined and the totals are presented in a single column on the face of the proprietary funds statements.

Measurement Focus, Basis of Accounting and Financial Statement Presentation

The financial statements of the School District are prepared in accordance with generally accepted accounting principles ("GAAP"). The School District's reporting entity applies all relevant Governmental Accounting Standards Board ("GASB") pronouncements and applicable Financial Accounting Standards Board ("FASB") pronouncements and Accounting Principles Board ("APB") opinions issued on or before November 30, 1989, unless they conflict with GASB pronouncements. The School District's reporting entity does not apply FASB pronouncements or APB opinions issued after November 30, 1989.

The government-wide statements report using the economic resources measurement focus and the accrual basis of accounting generally including the reclassification or elimination of internal activity (between or within funds). Reimbursements are reported as reductions to expenses. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized in the year for which they are levied while grants are recognized when grantor eligibility requirements are met.

Governmental fund financial statements report using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized when they are both measurable and available. Available means collectible within the current period or soon enough thereafter to pay current liabilities. The School District considers revenues to be available if they are collected within 60 days of the end of the fiscal year. Expenditures are recorded when the related fund liability is incurred, except for general obligation bond principal and interest which are reported as expenditures in the year due.

All proprietary fund types are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities associated with the operation of these funds are included on the statement of net assets. The statement of changes in fund net assets presents increases (i.e. revenues) and decreases (i.e. expenses) in net total assets. The statement of cash flows provides information about how the School District finances and meets the cash flow needs of its proprietary activities.

Fiduciary funds are reported using the economic resources measurement focus.

Major revenue sources susceptible to accrual include property taxes, intergovernmental revenues and investment income. In general, other revenues are recognized when cash is received.

When both restricted and unrestricted resources are available for use, it is the School District's policy to use restricted resources first, then unrestricted resources as needed.

NOTES TO FINANCIAL STATEMENTS - Continued

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Fund Types and Major Funds

Activities in Major Funds

The General Education Fund is the general operating fund of the School District. It is used to account for all financial resources except those required to be accounted for in another fund.

The Michigan Works Fund is used to account for the proceeds of specific revenue sources that are legally restricted to expenditures for various career enhancement related programs.

The Special Education Fund is used to account for the proceeds of specific revenue sources that are legally restricted to expenditures for special education programs.

The Vocational Education Fund is used to account for the proceeds of specific revenue sources that are legally restricted to expenditures for various career technology related programs.

The Capital Projects Fund #2 is used to account for financial resources to be used for classroom construction.

Activities in Non-Major Funds

The School Food Service Fund is used to account for the proceeds of specific revenue sources that are legally restricted to expenditures for the hot lunch program.

The Child Care Fund is used to account for the proceeds of specific revenue sources that are legally restricted to expenditures for the daycare of children.

The Capital Projects Fund #6 is used to account for financial resources to be used for ongoing pollution clean-up.

The Capital Projects Fund #1 is used to account for financial resources to be used for School District projects.

Internal Service Fund

The Employee Benefits Fund is used to account for the proceeds of specific revenue sources that are legally restricted to expenditures for compensated absences and dental and optical benefits.

Fiduciary Funds

Trust and Agency Funds are used to account for assets held by the School District in a trustee capacity. Agency Funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The Student Activities Accounts and Memorial Funds are accounted for as Agency Funds.

NOTES TO FINANCIAL STATEMENTS - Continued

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Cash and Investments

The School District reporting entity considers highly liquid investments (including restricted assets) with an original maturity of three months or less when purchased to be cash equivalents.

Investments are reported at fair value which is determined using selected bases. Short-term investments are reported at cost, which approximates fair value. Cash deposits are reported at carrying amount, which reasonably estimates fair value.

Inventories and Prepaids

Inventories in governmental funds consist of expendable supplies held for consumption stated on a first-in, first-out basis. They are reported at cost, which is recorded as an expenditure at the time individual inventory items are used.

Prepaids record payments to vendors that benefit future reporting periods and are also reported on the consumption basis. Both inventories and prepaids are similarly reported in government-wide and fund financial statements.

Capital Assets

Capital assets are recorded at cost or, if donated, the fair value at the time of donation. Capital assets are depreciated over their estimated useful lives ranging from 3 to 50 years. The School District generally capitalizes assets with costs of \$5,000 or more as purchase and construction outlays occur. No depreciation is recorded on land. Expenditures for major renewals and betterments that extend the useful lives of the capital assets are capitalized. Expenditures for maintenance and repairs are charged to current expenditures as incurred. Depreciation is computed using the straight-line method. When capital assets are disposed, the cost and applicable accumulated depreciation are removed from the respective accounts and the resulting gain or loss is recorded in operations.

Estimated useful lives, in years, for depreciable assets are as follows:

	<u>Years</u>
Buildings	50
Improvements, other than buildings	20-25
Vehicles	7-15
Furniture, machinery and equipment	3-20

Long-Term Debt, Deferred Debt Expense and Bond Discounts/Premiums

In the government-wide financial statements, outstanding debt is reported as liabilities. Bond issuances costs, bond discounts or premiums, and the difference between the reacquisition price and the net carrying value of refunded debt are capitalized and amortized over the terms of the respective bonds using a method that approximates the effective interest method.

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

The governmental fund financial statements recognize the proceeds of debt and premiums as other financing sources of the current period. Issuance costs are reported as expenditures.

Fund Equity

The governmental fund financial statements report reserved fund balance for various Board designations. The General Education Reserve is for instructional support for our local school districts. The Special Education Reserve is for instructional support of the Reading Intervention Program.

Allocation of Expenses

The School District reports each function's direct expenses, those that are specifically associated with a service, program or department and, thus, are clearly identifiable to a particular function.

The School District has elected to not allocate indirect expenses.

Environmental Remediation and Compliance

Environmental costs are generally expensed or capitalized when appropriate. Expenditures that relate to existing conditions caused by past operations, which do not contribute to current or future revenue generation, are expensed. Liabilities are recorded in the statement of net assets when environmental assessments and/or remedial efforts are probable and the costs can be reasonably estimated.

Environmental expense consists of current environmental compliance costs plus increases/less decreases in the accrued environmental costs liability. Current environmental compliance costs include maintenance and operation of pollution control facilities, cost of ongoing monitoring programs and pollution prevention related to current activities.

Use of Estimates in the Preparation of Financial Statements

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual amounts could differ from those estimates.

Prior Year Comparative Totals and Changes in Presentation

Prior year amounts have been extracted from previously issued financial statements and do not provide a complete presentation. They are included here for comparative analysis only. Certain changes in prior year amounts have been made to make them comparative with the current year.

NOTES TO FINANCIAL STATEMENTS - Continued

NOTE B - BUDGETARY POLICY AND PRACTICE

The School District has adopted these procedures in establishing the budgets as reflected in the financial statements.

1. As early as possible in the preceding fiscal year (generally in the spring), the Superintendent formulates preliminary budgets for the coming year, which he submits to the Board of Education for their review.
2. A public hearing is held prior to June 30 on the proposed budgets to obtain taxpayer comments.
3. The Board of Education reviews the proposed budget and then in June adopts a formal resolution approving the needed appropriations for the coming operating year.
4. All transfers of budget amounts and any amendments to the formal Appropriation Act are approved by the Board of Education.
5. It is the Superintendent's responsibility to supervise and monitor the budget process. He does this by reviewing the monthly financial data and reporting and recommending any needed amendments to the Board of Education.
6. The budget is adopted on a basis consistent with generally accepted accounting principles.
7. The budgets presented in these financial statements are as originally adopted and as formally amended by the Board of Education.

Michigan Public Act 621 of 1978 provides that a local unit shall not incur expenditures in excess of the amounts appropriated. During the year ended June 30, 2006, the School District was out of compliance with the Act as follows:

	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
Michigan Works Fund			
Basic Program	<u>\$124,322</u>	<u>\$124,432</u>	<u>\$(110)</u>

NOTE C - CASH AND INVESTMENTS

At June 30, 2006, the School District's cash and investments include the following:

	<u>Balance Sheet Classification</u>		
	<u>Cash and Equivalents</u>	<u>Investments</u>	<u>Total</u>
Bank deposits and cash on hand	\$5,545,413	\$ -	\$ 5,545,413
CD and Money Market deposits	-	19,413,405	19,413,405
Investment pools	<u>-</u>	<u>4,339,226</u>	<u>4,339,226</u>
	<u>\$5,545,413</u>	<u>\$23,752,631</u>	<u>\$29,298,044</u>

NOTES TO FINANCIAL STATEMENTS - Continued

NOTE C - CASH AND INVESTMENTS - Continued

Custodial Credit Risk - Deposits

In the event of a bank failure, the School District's deposits may not be returned to it. As of June 30, 2006, \$29,619,011 of the School District's bank balance of \$30,511,326 was exposed to custodial credit risk because it was uninsured and uncollateralized.

Investments

Michigan law permits investments in the following vehicles:

1. Bonds and other obligations of the United States Government.
2. Certificates of deposit and savings accounts of banks or credit unions who are members of the FDIC and FSLIC, respectively.
3. Certain commercial paper.
4. United States Government repurchase agreements.
5. Banker's acceptance of United States banks.
6. Certain mutual funds.

<u>Investment Type</u>	<u>Investment Maturities (in years) Market Value</u>				
	<u>Fair Value</u>	<u>Current</u>	<u>1-5</u>	<u>6-10</u>	<u>More than 10</u>
Investment pools	<u>\$4,339,226</u>	<u>\$4,339,226</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

Interest Rate Risk

In accordance with the School District's investment policy, the School District will minimize interest rate risk, which is the risk that the market value of securities in the portfolio will fall due to changes in market interest rates, by: structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations, thereby avoiding the need to sell securities in the open market; and, investing operating funds primarily in short-term securities, liquid asset funds, money market funds or similar investment pools, and limiting the average maturity in accordance with the School District's cash requirements.

Credit Risk

State law limits investments in commercial paper and corporate bonds to a prime or better rating issued by nationally recognized rating organizations. The School District has no investment policy that would further limit its investment choices. The School District's investment in the MILAF investment pool was rated AAAM by Standard and Poor's.

NOTE D - RECEIVABLES, UNCOLLECTIBLE ACCOUNTS AND DEFERRED REVENUE

Property Taxes Receivable, Deferred Revenue and Property Tax Calendar

Property taxes are levied, billed and attached as enforceable liens in July of the School District's fiscal year. Townships within the School District collect and remit taxes until February 15, at which time the uncollected real property taxes are turned over to the counties as delinquent. Delinquent real property taxes are funded by the county and remitted to the School District. Delinquent personal property tax remains a receivable until collected from the taxpayer by the townships and remitted to the School District. In the governmental fund financial statements, if delinquent taxes are not paid within 60 days of year-end, they are recorded as deferred revenue. In the government-wide financial statements, property taxes receivable and related revenue include all amounts due the School District regardless of when cash is received. Over time, substantially all property taxes are collected.

During the fiscal year, \$.2036, \$2.0000 and \$.7553 per \$1,000 of equalized homestead and non-homestead property value in the School District of \$8,120,932,571 was levied for general operating, special education and vocational education purposes, respectively.

Intergovernmental Receivables and Deferred Revenue

Intergovernmental receivables are primarily comprised of amounts due from the State and Federal governments. Revenue is recorded as earned when eligibility requirements are met. Grant revenues deferred in the governmental fund financial statements include unearned revenue and revenue received more than 60 days following year-end (unavailable to pay liabilities of the current period). Deferred revenue received after 60 days is fully recognized as revenue in the government-wide statements if grantor eligibility requirements are met.

Amounts due from other governments at June 30, 2006 are as follows:

Due from the State of Michigan	
State Aid	\$1,674,267
Due from townships - property taxes	150,072
Due from Federal grants	1,017,566
Other receivables	<u>358,567</u>
	<u>\$3,200,472</u>

NOTES TO FINANCIAL STATEMENTS - Continued

NOTE E - INVESTMENTS IN CAPITAL ASSETS

Investments in capital assets consist of the following:

	<u>July 1, 2005</u>	<u>Additions</u>	<u>Transfers/ Reclassification/ Dispositions</u>	<u>June 30, 2006</u>
Building and improvements	\$14,051,297	\$ 195,473	\$ 26,015	\$14,272,785
Furniture and equipment	1,114,802	41,021	-	1,155,823
Buses and vehicles	<u>394,990</u>	<u>13,480</u>	<u>(15,479)</u>	<u>392,991</u>
Total depreciable assets	15,561,089	249,974	10,536	15,821,599
Less accumulated depreciation	(7,057,558)	(568,565)	-	(7,626,123)
Land	134,558	-	(26,015)	108,543
Construction-in-process	<u>40,222</u>	<u>-</u>	<u>(40,222)</u>	<u>-</u>
Total capital assets, net	<u>\$ 8,678,311</u>	<u>\$(318,591)</u>	<u>\$(55,701)</u>	<u>\$ 8,304,019</u>

Depreciation expense was charged to the function in the statement of activities, as follows:

Unallocated	<u>\$568,565</u>
-------------	------------------

NOTE F - LONG-TERM DEBT

Changes in long-term debt during the year ended June 30, 2006 were as follows:

	<u>Beginning Balance</u>	<u>New Debt</u>	<u>Payments</u>	<u>Ending Balance</u>	<u>Current Portion</u>
School Improvement Bonds	\$1,335,018	\$ -	\$(101,148)	\$1,233,870	\$105,939
Accumulated leave liability	<u>1,026,227</u>	<u>-</u>	<u>(260,455)</u>	<u>765,772</u>	<u>-</u>
Long-term debt at June 30, 2006	<u>\$2,361,245</u>	<u>\$ -</u>	<u>\$(361,603)</u>	<u>\$1,999,642</u>	<u>\$105,939</u>

Payments on general obligation bonds are made by the Debt Service Fund. The accumulated leave liability will be liquidated primarily by the Michigan Works Fund.

At June 30, 2006, the School District's long-term debt consisted of the following:

School Improvement Bonds Payable

1998 School Improvement Bonds payable in annual installments of \$146,719 to \$692,484, including interest at an effective rate of 4.76%, with final payment due May 15, 2013. This debt will be repaid using revenues provided by the State of Michigan specifically for this purpose. Should the State legislature fail to appropriate these funds, the School District is not liable for repayment of these bonds. \$1,233,870

NOTES TO FINANCIAL STATEMENTS - Continued

NOTE F - LONG-TERM DEBT - Continued

Accrued Expenses

Terminal leave pay for accumulated sick leave owed to employees who have been employed by the School District for specified periods of time and are qualified for retirement under the Michigan Public School Employees Retirement System.

\$ 765,772

Total debt

1,999,642

Less current portion

(105,939)

Total long-term debt

\$1,893,703

Total annual requirements to amortize bonds as of June 30, 2006, are as follows:

<u>Years Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>
2007	\$ 105,939	\$ 40,779
2008	488,411	204,073
2009	116,297	30,450
2010	121,828	24,912
2011	127,631	19,112
2012- 2013	<u>273,764</u>	<u>19,703</u>
Totals	<u>\$1,233,870</u>	<u>\$339,029</u>

The accrued expenses for terminal leave pay were not included in the above amortization schedule because it is unknown when the employees will be receiving the payments.

NOTE G - RISK MANAGEMENT

The School District is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees; unemployment benefits; and natural disasters. The School District manages its risk exposures and provides certain employee benefits through a combination of self-insurance and risk management pools.

The School District participates in SET-SEG's risk management pools for worker's compensation claims, liability insurance and errors and omissions coverages. SET-SEG was established pursuant to laws of the State of Michigan which authorize local units of government to jointly exercise any power, privilege or authority which each might exercise separately. The purpose of SET-SEG is to provide cooperative and comprehensive risk financing and risk control services. SET-SEG provides risk management, underwriting, reinsurance and claim review and processing services for all member governments pursuant to its charter.

NOTES TO FINANCIAL STATEMENTS - Continued

NOTE G - RISK MANAGEMENT - Continued

The School District makes annual contributions to SET-SEG based on actuarial studies using historical data and insurance industry statistics. These contributions are paid from the General Fund. Such contributions as received by SET-SEG are allocated between its General and Member Retention Funds. Economic resources in SET-SEG's General Fund are expended for reinsurance coverage, claim payments and certain general and administrative costs, whereas resources in the Member Retention Fund are used for loss payments and defense costs up to the member's self-insurance retention limits along with certain other member-specific costs. Any refunds from SET-SEG are deposited in the School District's General Fund.

NOTE H - BALANCES AND TRANSFERS/PAYMENTS WITHIN THE REPORTING ENTITY

Receivables and Payables

Generally, outstanding balances between funds reported as "due to/from other funds" include outstanding charges by one fund to another for services or goods, subsidy commitments outstanding at year-end and other miscellaneous receivables/payables between funds. Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are described as "due to/from other funds" [(i.e., the current portion of interfund loans or "advances to/from other funds")(i.e., the non-current portion of interfund loans)].

Balances to which a fiduciary fund is a party are treated as "external" receivables and payables substantially reported as wages and benefits payable (retirement benefits).

There were no interfund receivables and payables as reported in the governmental fund financial statements at June 30, 2006.

Transfers and Payments

Transfers and payments within the reporting entity are substantially for the purposes of subsidizing operating functions. Resources are accumulated in a fund to support and simplify the administration of various projects or programs.

The government-wide statement of activities eliminates transfers as reported within the segregated governmental and business-type activities columns. Only transfers between the two columns appear in this statement.

The following schedule reports transfers and payments within the reporting entity:

<u>Transfers From</u>	<u>Transfers To</u>				<u>Total</u>
	<u>General Education</u>	<u>Michigan Works</u>	<u>Special Education</u>	<u>Capital Projects</u>	
General Education	\$ -	\$26,051	\$208,967	\$ 310,760	\$ 545,778
Michigan Works	249,508	-	-	-	249,508
Special Education	927,622	-	-	1,229,985	2,157,607
Vocational Education	344,021	-	-	700,000	1,044,021
Capital Projects	-	-	-	81,484	81,484
	<u>\$1,521,151</u>	<u>\$26,051</u>	<u>\$208,967</u>	<u>\$2,322,229</u>	<u>\$4,078,398</u>

NOTE I - PENSION PLAN

Plan Description

The School District contributes to the Michigan Public School Employees' Retirement Systems ("MPERS"), a cost-sharing multiple-employer defined benefit pension plan administered by the State of Michigan, Department of Management & Budget ("DMB"). MPERS provides retirement, disability, death and post-employment health benefits to plan members and beneficiaries. Member Investment Plan ("MIP") participants receive enhanced benefits compared to basic plan participants. Benefits are safeguarded by Article IX, Section 24 of the Michigan Constitution. Public Act 300 of 1980, as amended, assigns authority to establish and amend benefit provisions to the State Legislature. MPERS issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to MPERS, P.O. Box 30171, Lansing, MI 48909-7671, or by calling (517) 322-5103.

Funding Policy

Plan members who participate in MIP are required to contribute 3.0% to 4.3% of their annual covered salary; plan members who participate in the Basic Plan may not contribute to the plan; and the School District is required to contribute at an actuarially determined rate for all participants. The rate was 14.87% for July 1, 2005 through September 30, 2005 and 16.34% for October 1, 2005 through June 30, 2006. The contribution requirements of plan members and the School District are established and may be amended by the State Legislature. The School District's contributions to MPERS for the years ended June 30, 2006, 2005 and 2004 were \$3,235,139, \$2,851,372 and \$2,517,273, respectively, equal to the required contribution for each year.

NOTE J - COMMITMENTS AND CONTINGENCIES

Terminal/Sick Leave

There is no provision in these financial statements for terminal/sick leave payable to employees who do not presently meet age and service requirements, because the amount ultimately payable is not subject to estimation.

Medicaid Reserve

The School District has accrued \$1,321,969 for future charge backs to the Medicaid Program and/or due to local districts.

Federal and State Grants

In the normal course of operations, the School District receives grant funds from various Federal and State agencies. The grant programs are subject to audit by agents of the granting authorities the purpose of which is to ensure compliance with conditions precedent to the granting of funds. Any liability for reimbursement which may arise as the result of these audits is not believed to be material.

NOTE J - COMMITMENTS AND CONTINGENCIES - Continued

Unemployment Liability

The School District accrues a liability for future unemployment claims. The accrual contains an estimate for future unemployment claims from employees laid off as of June 30, 2006, plus an estimate for future unemployment claims from anticipated future layoffs of employees. As of June 30, 2006, the unemployment liability accrual was \$499,102.

Environmental Matters

The School District has been designated a potentially responsible party ("PRP") by the Michigan Department of Environmental Quality ("MDEQ"). Property presently owned by the School District is alleged to be the source of soil, groundwater and surface water contamination. The contamination alleged by the MDEQ is the result of past hazardous substance disposal practices by a previous property owner. However, because of Michigan Act 307, in effect from the early 1980's to 1994, the School District is liable for a portion of the clean up at the site.

At the School District's Career Tech Center ("CTC"), the MDEQ alleges that the groundwater and adjacent creek are showing levels of contaminants that are unsafe. At the request of the MDEQ, several studies of this situation have been conducted and significant steps have been taken toward remediation. These steps included the hookup of several residences to city water.

The School District is responsible for 40% of the remediation costs. Of this 40%, the School District maintains insurance which covers 50% of the School District's costs. The net result is the School District is responsible for 20% of the total cost of the clean up. The remaining 60% is the responsibility of the previous owners of the CTC property.

The School District's future costs are estimated to be in the range of \$2 million to \$3 million. A remediation action plan ("RAP") was recently submitted to MDEQ. The District is awaiting further instructions from MDEQ as of the date of this writing. As of June 30, 2006, \$2 million has been accrued in the statement of net assets relative to this liability. Management has designated approximately \$1.9 million in the Capital Projects #6 Fund, as described in Note A, for future costs in this matter. The exact amount needed has not been determined.

The School District's portion of environmental expense consisted of cash expenses for ongoing operation study and monitoring of environmental concerns totaling approximately \$403,000 and \$82,000 for the years ended June 30, 2006 and 2005, respectively.

NOTE K - DURANT SETTLEMENT

As a result of the Durant v State of Michigan settlement regarding State underfunding of school revenues, the School District will be receiving \$208,967 per year over a ten-year period beginning November 15, 1998. This represents 50% of expected funds. For the remaining 50% of the funds from this settlement, or \$2,089,666, the School District has opted to participate in a bonding program enabling it to receive a lump-sum payment on November 15, 1998. The debt will be repaid over a 15-year period beginning May 15, 1999 using revenues provided by the State specifically for this purpose. As a result of the State refinancing this debt during the year ended June 30, 2003, there was \$0 debt service payments for the years ended June 30, 2003, 2004 and 2005. Debt Service payments resumed during the year ended June 30, 2006. Settlement proceeds are restricted for use on school buses, electronic instructional material and software, school security, textbooks, technology, infrastructure or infrastructure improvement, training for technology, or to reduce or eliminate voter-approved debt issued prior to November 19, 1997.

NOTE L - MEDICAID OUTREACH DEFERRED REVENUE

As of June 30, 2006, the total amount of Medicaid Outreach revenue that has been deferred is \$1,321,969. This liability increased \$146,976 over the prior year's liability. No distributions have been made to the local districts during the year ended June 30, 2006. In the event the State of Michigan set aside funds are insufficient to repay Medicaid Outreach funds, these funds will be available to repay any Medicaid Outreach liabilities of the School District and local school districts.

REQUIRED SUPPLEMENTARY FINANCIAL INFORMATION

Traverse Bay Area Intermediate School District

BUDGETARY COMPARISON SCHEDULE FOR THE GENERAL EDUCATION FUND

For the Year Ended June 30, 2006

(With comparative totals for June 30, 2005)

	Budgeted Amounts		Actual (GAAP Basis)	
	Original	Final	2006	2005
Revenues				
Local sources	\$2,443,748	\$2,765,299	\$ 2,737,102	\$ 2,384,413
Intermediate sources	-	247	247	-
State program revenues	1,903,504	2,287,466	2,216,116	2,278,038
Federal program revenues	118,882	493,414	486,274	180,163
Total revenues	4,466,134	5,546,426	5,439,739	4,842,614
Expenditures				
Instruction expense				
Basic program	51,450	79,351	73,724	48,679
Adult and continuing	182,228	183,082	178,597	174,502
Support Services				
Pupil	191,012	93,527	86,803	78,569
Instructional staff	1,886,103	1,719,762	1,643,776	1,286,947
General administration	633,396	467,939	446,127	504,824
School administration	-	4,320	1,535	3,047
Business	727,192	693,712	674,514	648,123
Operation and maintenance	325,891	265,608	243,652	225,200
Central	1,371,361	1,115,614	1,081,736	944,021
Community Services	63,922	105,353	95,251	28,241
Payments to other governmental agencies, facility acquisitions and prior period adjustments				
Payments to other governmental agencies	995,528	1,738,416	1,673,131	2,311,505
Facility acquisitions	13,530	63,661	63,292	2,198
Total expenditures	6,441,613	6,530,345	6,262,138	6,255,856
REVENUES UNDER EXPENDITURES	(1,975,479)	(983,919)	(822,399)	(1,413,242)
Other financing sources (uses)				
Operating transfers in	1,543,975	1,521,151	1,521,151	1,433,810
Operating transfers out	(375,428)	(545,779)	(545,778)	(708,967)
REVENUES OVER (UNDER) EXPENDITURES AND OTHER FINANCING SOURCES (USES)	(806,932)	(8,547)	152,974	(688,399)
Fund balance, beginning of year	2,617,807	2,811,551	2,811,551	3,499,950
Fund balance, end of year	\$1,810,875	\$2,803,004	\$ 2,964,525	\$ 2,811,551

Traverse Bay Area Intermediate School District

BUDGETARY COMPARISON SCHEDULE FOR THE MICHIGAN WORKS FUND

For the Year Ended June 30, 2006

(With comparative totals for June 30, 2005)

	<u>Budgeted Amounts</u>		<u>Actual (GAAP Basis)</u>	
	<u>Original</u>	<u>Final</u>	<u>2006</u>	<u>2005</u>
Revenues				
Local sources	\$ 301,199	\$ 376,024	\$ 362,610	\$ 399,929
State program revenues	512,000	587,448	526,157	314,422
Federal program revenues	4,970,250	5,334,473	5,348,319	5,711,543
Total revenues	<u>5,783,449</u>	<u>6,297,945</u>	<u>6,237,086</u>	<u>6,425,894</u>
Expenditures				
Instruction expense				
Basic program	175,240	124,322	124,432	165,292
Added needs	259,967	302,387	282,004	295,730
Adult and continuing	883,969	1,137,870	1,126,066	1,075,556
Support Services				
Instructional staff	114,684	173,369	171,613	116,592
General administration	5,500	5,500	4,625	4,889
School administration	5,500	25,100	24,786	34,571
Business	3,000	3,000	2,702	2,993
Operation and maintenance	722,870	721,512	714,368	798,011
Pupil transportation	104,000	108,045	97,862	116,650
Central	15,750	18,176	17,248	17,990
Community Services	3,279,905	3,461,784	3,429,627	3,529,776
Total expenditures	<u>5,570,385</u>	<u>6,081,065</u>	<u>5,995,333</u>	<u>6,158,050</u>
REVENUES OVER EXPENDITURES	213,064	216,880	241,753	267,844
Other financing sources (uses)				
Operating transfers in	-	26,051	26,051	-
Operating transfers out	(269,470)	(249,508)	(249,508)	(255,902)
REVENUES OVER (UNDER) EXPENDITURES AND OTHER FINANCING SOURCES (USES)	(56,406)	(6,577)	18,296	11,942
Fund balance, beginning of year	<u>589,590</u>	<u>605,309</u>	<u>605,309</u>	<u>593,367</u>
Fund balance, end of year	<u>\$ 533,184</u>	<u>\$ 598,732</u>	<u>\$ 623,605</u>	<u>\$ 605,309</u>

Traverse Bay Area Intermediate School District

BUDGETARY COMPARISON SCHEDULE FOR THE SPECIAL EDUCATION FUND

For the Year Ended June 30, 2006

(With comparative totals for June 30, 2005)

	Budgeted Amounts		Actual (GAAP Basis)	
	Original	Final	2006	2005
Revenues				
Local sources	\$16,849,221	\$ 19,329,346	\$ 19,343,515	\$ 16,654,764
State program revenues	6,840,085	7,133,059	7,129,047	6,515,764
Federal program revenues	5,524,805	5,740,349	5,606,938	5,068,377
Total revenues	29,214,111	32,202,754	32,079,500	28,238,905
Expenditures				
Instruction expense				
Added needs	8,589,983	7,408,409	7,234,904	6,785,310
Support Services				
Pupil	12,830,027	13,295,185	13,104,122	11,934,738
Instructional staff	3,202,100	3,585,457	3,435,395	2,856,187
General administration	135,851	196,000	186,478	86,390
Business	289,720	362,823	359,564	290,640
Operation and maintenance	953,707	863,548	841,828	811,537
Pupil transportation	154,254	131,537	114,826	61,978
Central	191,006	240,049	233,902	166,042
Other	5,450	7,057	7,021	3,195
Community Services	6,866	6,152	5,440	9,970
Payments to other governmental agencies, facility acquisitions and prior period adjustments				
Payments to other governmental agencies	2,613,465	3,620,409	3,615,028	3,135,058
Facility acquisitions	225,000	2,150	1,650	20,643
Prior period adjustments	-	34,608	34,608	-
Total expenditures	29,197,429	29,753,384	29,174,766	26,161,688
REVENUES OVER EXPENDITURES	16,682	2,449,370	2,904,734	2,077,217
Other financing sources (uses)				
Operating transfers in	208,967	208,967	208,967	208,967
Operating transfers out	(898,330)	(2,157,607)	(2,157,607)	(3,936,885)
REVENUES OVER (UNDER) EXPENDITURES AND OTHER FINANCING SOURCES (USES)	(672,681)	500,730	956,094	(1,650,701)
Fund balance, beginning of year	7,819,017	8,300,349	8,300,349	9,951,050
Fund balance, end of year	<u>\$ 7,146,336</u>	<u>\$ 8,801,079</u>	<u>\$ 9,256,443</u>	<u>\$ 8,300,349</u>

Traverse Bay Area Intermediate School District

BUDGETARY COMPARISON SCHEDULE FOR THE VOCATIONAL EDUCATION FUND

For the Year Ended June 30, 2006

(With comparative totals for June 30, 2005)

	Budgeted Amounts		Actual (GAAP Basis)	
	Original	Final	2006	2005
Revenues				
Local sources	\$6,433,263	\$6,590,592	\$ 6,588,595	\$ 6,087,809
State program revenues	597,805	820,096	820,580	693,888
Federal program revenues	489,445	469,126	469,096	444,272
Total revenues	7,520,513	7,879,814	7,878,271	7,225,969
Expenditures				
Instruction expense				
Added needs	3,597,526	3,471,005	3,384,368	3,227,106
Support Services				
Pupil	837,083	856,374	813,083	797,103
Instructional staff	428,813	436,583	425,937	370,936
General administration	172,576	108,963	106,119	102,401
School administration	507,780	494,971	484,015	448,436
Business	139,680	132,250	126,291	113,684
Operation and maintenance	874,960	830,665	797,374	731,035
Transportation	-	15,621	15,621	-
Central	18,017	17,414	12,894	12,431
Other	33,625	33,012	28,121	31,569
Community Services	44,344	29,108	22,617	30,026
Payments to other governmental agencies, facility acquisitions and prior period adjustments				
Payments to other governmental agencies	265,297	203,453	191,392	482,338
Facility acquisitions	219,747	170,081	162,362	81,300
Total expenditures	7,139,448	6,799,500	6,570,194	6,428,365
REVENUES OVER EXPENDITURES	381,065	1,080,314	1,308,077	797,604
Other financing uses				
Operating transfers out	(376,175)	(1,044,021)	(1,044,021)	(1,841,023)
REVENUES OVER (UNDER) EXPENDITURES AND OTHER FINANCING USES	4,890	36,293	264,056	(1,043,419)
Fund balance, beginning of year	2,384,462	2,371,310	2,619,656	3,663,075
Fund balance, end of year	<u>\$2,389,352</u>	<u>\$2,407,603</u>	<u>\$ 2,883,712</u>	<u>\$ 2,619,656</u>

**COMBINING FINANCIAL STATEMENTS OF
NON-MAJOR GOVERNMENTAL FUNDS**

Traverse Bay Area Intermediate School District

COMBINING BALANCE SHEET - OTHER GOVERNMENTAL FUNDS

June 30, 2006

(With comparative totals for June 30, 2005)

	Special Revenue Funds		Capital Projects Funds -		Debt Service	Total Other Governmental Funds	
	School Food Service	Child Care	#1	#6		2006	2005
ASSETS							
Cash and cash equivalents	\$ 1,146	\$ 15,737	\$ 238,146	\$ 787,953	\$ -	\$ 1,042,982	\$ 62,130
Investments	-	-	585,869	1,072,207	-	1,658,076	1,901,047
Other receivables	-	15,014	-	70,199	-	85,213	4,451
Total assets	\$ 1,146	\$ 30,751	\$ 824,015	\$ 1,930,359	-	\$ 2,786,271	\$ 1,967,628
LIABILITIES AND FUND BALANCES							
LIABILITIES							
Accounts payable and accrued expenses	\$ -	\$ 30,702	\$ -	\$ -	-	\$ 30,702	\$ 34,349
FUND BALANCES							
Unreserved							
School Food Service Fund	1,146	-	-	-	-	1,146	777
Child Care Fund	-	49	-	-	-	49	2,781
Capital Projects Funds	-	-	824,015	1,930,359	-	2,754,374	1,929,721
Total fund balances	1,146	49	824,015	1,930,359	-	2,755,569	1,933,279
Total liabilities and fund balances	\$ 1,146	\$ 30,751	\$ 824,015	\$ 1,930,359	\$ -	\$ 2,786,271	\$ 1,967,628

35 The accompanying notes are an integral part of these financial statements.

Traverse Bay Area Intermediate School District

COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES - OTHER GOVERNMENTAL FUNDS

For The Year Ended June 30, 2006

(With comparative totals for June 30, 2005)

	Special Revenue Funds			Capital Projects Funds -		Debt Service	Total Other Governmental Funds	
	School	Food	Child Care	#1	#6		2006	2005
Revenues								
Interest	\$ 171	\$ -	\$ -	\$ 15,333	\$ 61,299	\$ -	\$ 76,803	\$ 11,270
State program revenue	-	-	-	-	-	146,743	146,743	-
Other	15,861	271,216	-	-	-	-	287,077	224,676
Total revenues	16,032	271,216		15,333	61,299	146,743	510,623	235,946
Expenditures								
Support Services	20	-	-	4,881	257,858	-	262,759	81,511
Child care	-	273,948	-	-	-	-	273,948	224,734
Food Service	15,643	-	-	-	-	-	15,643	11,926
Debt Service	-	-	-	-	-	101,148	101,148	-
Principal	-	-	-	-	-	45,595	45,595	-
Interest	-	-	-	-	-	-	-	-
Total expenditures	15,663	273,948		4,881	257,858	146,743	699,093	318,171
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	369	(2,732)		10,452	(196,559)	-	(188,470)	(82,225)
Other financing sources (uses)								
Operating transfers in	-	-	-	392,244	700,000	-	1,092,244	2,000,000
Operating transfers out	-	-	-	-	(81,484)	-	(81,484)	-
Total other financing sources (uses)	-	-	-	392,244	618,516	-	1,010,760	2,000,000
REVENUE OVER (UNDER) EXPENDITURES AND OTHER FINANCING SOURCES (USES)	369	(2,732)		402,696	421,957	-	822,290	1,917,775
Fund balance, beginning of year	777	2,781		421,319	1,508,402	-	1,933,279	15,504
Fund balance, end of year	\$ 1,146	\$ 49		\$ 824,015	\$ 1,930,359	\$ -	\$ 2,755,569	\$ 1,933,279

FEDERAL PROGRAMS

**REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE
TO EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER COMPLIANCE
IN ACCORDANCE WITH *OMB CIRCULAR A-133***

Board of Education
Traverse Bay Area Intermediate School District

Compliance

We have audited the compliance of the ***Traverse Bay Area Intermediate School District*** (the “School District”) with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major Federal programs for the year ended June 30, 2006. The School District’s major Federal programs are identified in the summary of auditor’s results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major Federal programs is the responsibility of the School District’s management. Our responsibility is to express an opinion on the School District’s compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major Federal program occurred. An audit includes examining, on a test basis, evidence about the School District’s compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the School District’s compliance with those requirements.

In our opinion, the School District complied, in all material respects, with the requirements referred to above that are applicable to each of its major Federal programs for the year ended June 30, 2006.

Internal Control Over Compliance

The management of the School District is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to Federal programs. In planning and performing our audit, we considered the School District's internal control over compliance with requirements that could have a direct and material effect on a major Federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with *OMB Circular A-133*.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants caused by error or fraud that would be material in relation to a major Federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of the Board of Education, management and Federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Dennis, Gartland & Niergarth

August 7, 2006

**REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL
REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

Board of Education
Traverse Bay Area Intermediate School District

We have audited the financial statements of the governmental activities, each major fund and the aggregate remaining fund information of the *Traverse Bay Area Intermediate School District* (the "School District") as of and for the year ended June 30, 2006, which collectively comprise the School District's basic financial statements and have issued our report thereon dated August 7, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the School District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the School District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Member of



415 Munson Avenue, Post Office Box 947
Traverse City, Michigan 49685-0947
231.946.1722, FAX: 231.946.2762
www.dgncpa.com

The report is intended solely for the information and use of the Board of Education, management, Michigan Department of Education, Federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Dennis, Gartland & Niergarth

August 7, 2006

TRAVERSE BAY AREA INTERMEDIATE SCHOOL DISTRICT

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

For fiscal year ended June 30, 2006

GRANT NAME		Project Number	CFDA Number	Grant Amount	Accrued (Deferred) Revenue 6/30/2005	Prior Year Expenditures	Current Year Cash Receipts	Current Year Expenditures	Adjustment	Accrued (Deferred) Revenue 6/30/2006
U.S. Department of Education										
Passed Through Michigan Department of Education										
Title V Innovative Education 04/05		050250 0405	84.298	\$ 38,640	\$ (80)	\$ 13,948	\$ 24,612	\$ 24,692	\$ -	\$ -
Title V Innovative Education 05/06		060250 0506	84.298	25,753	-	-	8,221	10,069	-	1,848
				64,393	(80)	13,948	32,833	34,761	-	1,848
Eisenhower Title II, Part B 04/05		050520 0405	84.367	2,392	375	764	2,003	1,628	-	-
Title II, Part B 05/06		060520 0506	84.367	1,584	-	-	1,573	1,584	-	11
				3,976	375	764	3,576	3,212	-	11
Drug Free Formula 04/05		052860 0405	84.186	33,984	2,171	21,036	15,118	12,948	(1)	-
Drug Free Formula 05/06		062860 0506	84.186	33,489	-	-	22,571	25,141	-	2,570
				67,473	2,171	21,036	37,689	38,089	(1)	2,570
Title II Part A		050510-02	84.367A	40,000	-	-	4,500	9,126	-	4,626
Teachers On Loan - Hammond		062920-061RFA	84.357A	101,920	-	-	-	-	-	-
Teachers On Loan - Schlitt		062920-061RFA	84.357A	103,063	-	-	158,230	204,983	-	46,753
				244,983	-	-	162,730	214,109	-	51,379
PL 94-142 Flow Through 04/06 (year 1)		050450 0405	84.027	4,636,112	140,338	3,431,708	140,338	-	-	-
PL 94-142 Flow Through 04/06 (year 2)		060450 0506	84.027	-	-	-	1,204,404	1,204,404	-	-
PL 94-142 Flow Through 05/07 (year 1)		060460 0506	84.027	4,802,730	-	-	3,065,183	3,872,026	-	806,843
Preschool Incentive		060460 0506	84.173	172,259	-	-	172,259	172,259	-	-
Spec Ed Idea Initiated/Capacity Building		050490 CB	84.027	56,599	3,308	56,599	3,308	-	-	-
State Initiated/Competitive EPSD		060480 EOISD	84.027	50,000	-	-	50,000	49,999	1	-
Transition		050490 TS	84.027	90,000	1,976	90,000	1,976	-	-	-
Transition		060490 TS	84.027	90,000	-	-	85,473	90,000	-	4,527
				9,897,700	145,622	3,578,307	4,722,941	5,388,688	1	811,370
Infant and Toddler Formula 04/06 (year 1)		051340 190	84.181	210,513	(1,994)	191,303	-	1,994	-	-
Infant and Toddler Formula 04/06(year 2)		051340 191	84.181	-	-	-	17,217	17,217	-	-
Early On-Infant/Toddler 05/07 (year 1)		061340 190	84.181	206,047	-	-	178,724	197,564	-	18,840
				416,560	(1,994)	191,303	195,941	216,775	-	18,840

TRAVERSE BAY AREA INTERMEDIATE SCHOOL DISTRICT SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

For fiscal year ended June 30, 2006

GRANT NAME	Project Number	CFDA Number	Grant Amount	Accrued (Deferred) Revenue 6/30/2005	Prior Year Expenditures	Current Year Cash Receipts	Current Year Expenditures	Adjustment	Accrued (Deferred) Revenue 6/30/2006
Freedom to Learn	0624280 5a	84.318	\$ 5,000	\$ -	\$ -	\$ 5,000	\$ 5,000	\$ -	\$ -
Freedom to Learn	0624280 5b	84.318	158,600	-	-	158,600	158,600	-	-
Entrepreneurship/Perkins	043260/50163	84.048	22,877	6,330	8,033	21,174	14,844	-	-
Vocational Ed - Tech Prep 04/05	0543540 501405	84.243	150,789	8,351	150,789	8,351	-	-	-
Vocational Ed - Tech Prep 05/06	0643540 501506	84.243	158,721	-	-	158,721	158,721	-	-
			495,987	14,681	158,822	351,846	337,165	-	-
TOTAL MICHIGAN DEPARTMENT OF EDUCATION			11,191,072	160,775	3,964,180	5,507,556	6,232,799	-	886,018
Passed through Berrin County ISD Education Technology	0624663	84.318	32,350	-	-	32,350	32,350	-	-
Passed through Wexford/Missaukee ISD Vocational Ed - Regional Perkins	053521/7510	84.048A	294,961	-	-	294,961	294,955	6	-
Michigan Dept. of Labor & Economic Growth Passed through the Northwest Michigan Council of Governments									
Adult Education & Family Literacy	22-PY04-AFL	84.002	176,750	(34,784)	141,966	-	34,784	-	-
Adult Education & Family Literacy	22-PY05-AFL	84.002	140,600	-	-	140,600	131,767	-	(8,833)
TOTAL U.S. DEPARTMENT OF EDUCATION			11,835,733	125,991	4,106,146	5,975,467	6,726,655	6	877,185
U.S. Department of Health & Human Services									
Passed through Northwest Michigan Human Services HeadStart	A 065CH4182/37	93.600	29,974	1,514	29,974	-	-	-	1,514
Passed through Charlevoix-Emmet ISD									
Even Start	06998	84.213C	5,152	(935)	-	-	936	(1)	-
Even Start	D0626CES	84.213C	9,071	-	-	599	-	-	(599)
			14,223	(935)	-	599	936	(1)	(599)

TRAVERSE BAY AREA INTERMEDIATE SCHOOL DISTRICT **SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**

For fiscal year ended June 30, 2006

GRANT NAME	Project Number	CFDA Number	Grant Amount	Accrued (Deferred) Revenue 6/30/2005	Prior Year Expenditures	Current Year Cash Receipts	Current Year Expenditures	Adjustment	Accrued (Deferred) Revenue 6/30/2006
Michigan Dept. of Labor & Economic Growth Passed through the Northwest Michigan Council of Governments Work First Work First	22-FY05-01	93.558	\$ 853,634	\$ 26,672	\$ 561,672	\$ 333,876	\$ 307,205	\$ (1)	\$ -
	22-FY06-01	93.558	1,026,315	-	-	766,000	764,295	-	(1,705)
			1,879,949	26,672	561,672	1,099,876	1,071,500	(1)	(1,705)
TOTAL U.S. DEPT OF HEALTH AND HUMAN SERVICES			1,924,146	27,251	591,646	1,100,475	1,072,436	(2)	(790)
U.S. Department of Agriculture									
Michigan Dept. of Labor & Economic Growth Passed through the Northwest Michigan Council of Governments Food Stamp Employment and Training Food Stamp Employment and Training	22-FY05-01	10.561	83,867	2,661	58,661	26,832	24,171	-	-
	22-FY06-01	10.561	90,478	-	-	66,700	68,010	-	1,310
			174,345	2,661	58,661	93,532	92,181	-	1,310
TOTAL U.S. DEPT OF AGRICULTURE									
U.S. Department of Labor									
Michigan Dept. of Labor & Economic Growth Passed through the Northwest Michigan Council of Governments Trade Reform Act Trade Reform Act Reed Act Wagner-Peyser Emp Service Wagner-Peyser Emp Service Wagner-Peyser Re-emp Service Wagner-Peyser Re-emp Service Workforce Investment Act - Youth Workforce Investment Act - Youth Workforce Investment Act - Adult Workforce Investment Act - Adult Workforce Investment Act - Adult Nat Res Workforce Investment Act - Adult Nat Res Workforce Investment Act - Dislocated Workforce Investment Act - Dislocated Workforce Investment Act Title I Statewide Workforce Investment Act Title I Statewide	22-FY05-01	17.245	307,045	(32,890)	196,610	120,605	153,495	-	-
	22-FY06-01	17.245	229,966	-	-	127,500	127,050	-	(450)
	22-FY05-01	17.225	238,417	(11,096)	129,504	100,500	107,701	3,895	-
	22-PY-04-01	17.207	409,801	(323)	401,330	-	-	323	-
	22-PY05-01	17.207	426,500	-	-	425,000	426,416	-	1,416
	22-PY-04-01	17.207	36,744	864	36,541	-	-	-	-
	22-PY05-01	17.207	35,800	-	-	35,900	35,712	-	(188)
	22-PY-04-01	17.259	1,013,882	68,385	1,013,385	68,385	-	-	-
	22-PY05-01	17.259	1,004,000	-	-	1,000,000	1,003,915	-	3,915
	22-PY-04-01	17.258	1,091,447	15,638	1,100,638	15,638	-	-	-
	22-PY05-01	17.258	817,200	-	-	792,000	817,138	-	25,138
	22-PY-04-01	17.258	42,931	6,293	48,493	6,293	-	-	-
	22-PY05-01	17.258	11,800	-	-	10,500	11,737	-	1,237
	22-PY-04-01	17.260	1,180,833	(40,986)	1,179,314	-	-	40,986	-
	22-PY05-01	17.260	1,210,000	-	-	1,195,000	1,209,876	(100)	14,776
	22-FY05-01	17.258	74,498	(2,874)	26,026	80,000	52,832	30,042	-
	22-PY05-01	17.258	71,400	-	-	8,000	71,376	-	63,376
TOTAL U.S. DEPARTMENT OF LABOR			8,202,264	3,011	4,131,841	3,986,185	4,017,248	75,146	109,220
TOTAL FEDERAL ASSISTANCE			\$ 22,136,488	\$ 158,914	\$ 8,888,294	\$ 11,155,659	\$ 11,908,520	\$ 75,150	\$ 986,925

TRAVERSE BAY AREA INTERMEDIATE SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
PROVIDED TO SUBRECIPIENTS
For fiscal year ended June 30, 2006

Program Title/Grant Number	CFDA Number	Subrecipient Name	Subrecipient Award/Contract Amount	Due To (From) Subrecipient July 1, 2005	(Memo Only)		Subrecipient Current Year Expenditures	Current Year Cash Transferred To Subrecipient	Due To (From) Subrecipient June 30, 2006
					Subrecipients Prior Year Expenditures	Subrecipient Current Year Expenditures			
US Department of Education									
Learning Without Limits									
62-24663 Elk Rapids Public School	84.318		\$ 800	\$ -	\$ -	800	\$ 800	\$ -	-
62-24663 Leland Public School			3,600	-	-	3,600	3,600	-	-
064280-5a Leland Public School			5,000	-	-	5,000	5,000	-	-
064280-5b Elk Rapids Public School			120,200	-	-	120,200	120,200	-	-
064280-5b Leland Public School			38,400	-	-	38,400	38,400	-	-
			<u>168,000</u>	-	-	<u>168,000</u>	<u>168,000</u>	-	-
Drug Free Formula									
062860-0506	84.186	Forest Area Community School	1,542	-	-	1,542	1,542	-	-
		Mancelona Public School	1,255	-	-	1,255	1,255	-	-
			<u>2,797</u>	-	-	<u>2,797</u>	<u>2,797</u>	-	-
Drug Free Formula -Carryover									
052860-0405 Forest Area Community School	84.027A		<u>918</u>	-	-	<u>918</u>	<u>918</u>	-	-
IDEA Flowthrough									
060450-0506									
Bellaire Public Schools									
Benzie Country Central Schools			293	-	-	293	293	-	-
Buckley Community School			1,041	-	-	1,041	1,041	-	-
Elk Rapids Public School			265	-	-	265	265	-	-
Forest Area Community Schools			372	-	-	372	372	-	-
Glen Lake Community Schools			1,050	-	-	1,050	1,050	-	-
Kalkaska Public Schools			689	-	-	689	689	-	-
Kingsley Area Schools			1,633	-	-	1,633	1,633	-	-
Mancelona Public Schools			1,093	-	-	1,093	1,093	-	-
Northport Public Schools			446	-	-	446	446	-	-
Suttons Bay Public Schools			180	-	-	180	180	-	-
Traverse City Area Public Schools			25,443	-	-	25,443	25,443	-	-
			<u>12,188</u>	-	-	<u>12,188</u>	<u>12,188</u>	-	-
			<u>44,693</u>	-	-	<u>44,693</u>	<u>44,693</u>	-	-

TRAVERSE BAY AREA INTERMEDIATE SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
PROVIDED TO SUBRECIPIENTS
For fiscal year ended June 30, 2006

Program Title/Grant Number	CFDA Number	Subrecipient Name	Subrecipient Award/Contract Amount	Due To (From) Subrecipient July 1, 2005	(Memo Only)		Subrecipient Current Year Expenditures	Current Year Cash Transferred To Subrecipient	Due To (From) Subrecipient June 30, 2006
					Subrecipients Prior Year Expenditures	Subrecipients Current Year Expenditures			
Transition Grant									
050490-TS									
	81.027A		\$	957 \$	- \$	- \$	957 \$	957 \$	-
Elk Rapids Public Schools			2,145	-	-	2,145	2,145	2,145	-
Forest Area Community School			400	-	-	400	400	400	-
Frankfort-Elberta Public Schools			161	-	-	161	161	161	-
Glen Lake Community Schools			150	-	-	150	150	150	-
Grand Traverse Academy			434	-	-	434	434	434	-
Kalkaska Public Schools			70	-	-	70	70	70	-
Leland Public Schools			281	-	-	281	281	281	-
Mancelona Public Schools			229	-	-	229	229	229	-
Suttons Bay Public Schools			5,173	-	-	5,173	5,173	5,173	-
Traverse City Area Public School			10,000	-	-	10,000	10,000	10,000	-
Preschool Grant									
060460-0506									
	84.173A		12,984	-	-	12,984	12,984	12,984	-
Benzie Country Central School			4,328	-	-	4,328	4,328	4,328	-
Buckley Community Schools			8,656	-	-	8,656	8,656	8,656	-
Elk Rapids Public Schools			10,388	-	-	10,388	10,388	10,388	-
Forest Area Community Schools			4,328	-	-	4,328	4,328	4,328	-
Frankfort-Elberta Schools			19,909	-	-	19,909	19,909	19,909	-
Kalkaska Public Schools			12,984	-	-	12,984	12,984	12,984	-
Kingsley Area Schools			15,581	-	-	15,581	15,581	15,581	-
Mancelona Public Schools			6,059	-	-	6,059	6,059	6,059	-
Suttons Bay Public Schools			77,040	-	-	77,040	77,040	77,040	-
Traverse City Area Public School			172,257	-	-	172,257	172,257	172,257	-
Vocational Education -Tech Prep									
	84.048A		11,405	-	-	11,405	11,405	11,405	-
Manistee ISD			30,130	-	-	30,130	30,130	30,130	-
Wexford-Missaukee ISD			33,966	-	-	33,966	33,966	33,966	-
Charlevoix-Emmet ISD			75,501	-	-	75,501	75,501	75,501	-
Vocational Education- Regional Perkins									
	84.048A		25,000	-	-	25,000	25,000	25,000	-
Mancelona Public Schools			499,166	-	-	499,166	499,166	499,166	-
Total US Department of Education			\$	\$	- \$	\$	\$	\$	\$

Traverse Bay Area Intermediate School District

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

June 30, 2006

- Note 1** The Schedule of Expenditures of Federal Awards is prepared on the accrual basis of accounting.
- Note 2** Management has reported that expenditures in this Schedule of Expenditures of Federal Awards are equal to those amounts reported in the annual or final cost reports. Unallowed differences, if any, have been disclosed to the auditor.
- Note 3** The financial reports, including claims for advances and reimbursements and amounts claimed or used for matching are timely, complete and accurate, and contain information that is supported by the books and records from which the basic financial statements have been prepared. Grant receipts reported on the Schedule of Expenditures of Federal Awards, as passed through the Michigan Department of Education, reconcile to the Grant Section Auditor's Report (R7120). Unreconciled differences have been disclosed to the auditor.
- Note 4** A reconciliation of expenditures on the Schedule of Expenditures of Federal Awards and sources on the financial statements are as follows:

Federal expenditures per Schedule of	
Expenditures of Federal Awards	\$11,908,520
Payments in lieu of taxes	2,199
Other	<u>(92)</u>
Federal sources per financial statements	<u>\$11,910,627</u>